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# A-Tear in the Corporate Veil: The Liability of Corporate Officers for Patent Infringement

## INTRODUCTION

Corporate officers are wise to use extra caution when making decisions that might result in patent infringement. Generally, a corporate officer, acting in his or her official capacity, may only incur personal liability for torts committed by his or her corporation either under the principles of agency or by piercing the corporate veil.<sup>1</sup> However, when the corporation commits patent infringement the traditional principles do not always apply. This peculiarity of patent law is the result of the broad definition of infringement as set forth in the Patent Act of 1952.<sup>2</sup>

Before 1952, the federal appellate courts, applying general theories of corporate law, did not often find corporate officers personally liable for patent infringement.<sup>3</sup> Most jurisdictions only held a corporate officer personally liable if (1) he committed the infringement while acting outside of his or her official capacity, (2) he was using "the corporation as an instrument to carry out his or her own willful and deliberate infringements," or (3) the corporation was merely a sham allowing the officer to avoid personal liability.<sup>4</sup> Because of the complexity involved in proving that an officer was acting outside of his or her scope of employment, establishing liability was extremely difficult absent substantial undercapitalization of the corporation.<sup>5</sup> However, the Patent Act of 1952 broadened the definition of infringement, subjecting corporate of-

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1. See Ronald B. Coolley, *Personal Liability of Corporate Officers and Directors For Infringement of Intellectual Property*, 68 J. PAT. [& TRADEMARK] OFF. SOC'Y 228, 229 (1986).

2. The Patent Act of 1952 is set forth in 35 U.S.C. § 271 (1994).

3. See Coolley, *supra* note 1, at 230.

4. See, e.g., *Dangler v. Imperial Mach. Co.*, 11 F.2d 945, 947 (7th Cir. 1926). There was also a line of precedent based on *National Cash-Register Co. v. Leland*, 94 F. 502 (1st Cir. 1899), creating liability if a corporate officer specifically authorized the infringement. *Dangler*, 11 F.2d at 947.

5. See generally, *Hitchcock v. American Plate Glass Co.*, 259 F. 948 (3d Cir. 1919); *Zubik v. Zubik*, 384 F.2d 267, 271 (3d Cir. 1967).

ficers to the risk of personal liability in situations in which traditional corporate law does not.<sup>6</sup>

Among the revisions made to Title 35 of the United States Code in The Patent Act of 1952 were two new provisions, sections 271(a) and 271(b), which would ultimately be used to hold corporate officers personally liable for patent infringement.<sup>7</sup> Section 271(a), which defines direct infringement, establishes liability for "who[m]ever without authority makes, uses, offers to sell, or sells any patented invention."<sup>8</sup> Section 271(b) establishes infringement liability for "[w]ho[m]ever actively induces infringement."<sup>9</sup> The drafters of section 271 attempted to supply the federal courts with a uniform definition of infringement.<sup>10</sup> However, federal appellate courts did not consistently apply the language of section 271 in situations in which the liability of a corporate officer was at issue<sup>11</sup> until the Court of Appeals for the Federal Circuit ("CAFC") was established in 1982.<sup>12</sup> This comment discusses the current state of the law regarding sections 271(a) and (b) of the Patent Act by examining only those federal court opinions published since the creation of the CAFC. Part One focuses on direct infringement under section 271(a), Part Two on inducing infringement under section 271(b), and Part Three on the validity of the defense of good-faith reliance on the advice of counsel as it relates to section 271(b).

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6. See, e.g., *White v. Mar-bel, Inc.*, 509 F.2d 287, 292 (5th Cir. 1975); *International Mfg. Co. v. Landon, Inc.*, 336 F.2d 723, 728-29 (9th Cir. 1964).

7. Section 271(a), prohibiting direct infringement, provides that "[e]xcept as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent." 35 U.S.C. § 271(a) (Supp. II 1996). Section 271(b), prohibiting inducing infringement, provides that "[w]hoever actively induces infringement of a patent shall be liable as an infringer." 35 U.S.C. § 271(b) (1994).

8. 35 U.S.C. § 271(a).

9. 35 U.S.C. § 271(b).

10. See S. REP. NO. 82-1979 (1952), *reprinted in* 1952 U.S.C.C.A.N. 2394, 2402.

11. Compare *International Mfg.*, 336 F.2d at 728-29 (applying § 271(b) to hold a corporate officer personally liable for infringement), with *Weller Mfg. Co. v. Wen Products, Inc.*, 231 F.2d 795, 801 (7th Cir. 1956) (applying traditional corporate law principles to determine the liability of a corporate officer for infringement).

12. The Federal Circuit was added in the 1982 Amendment to 28 U.S.C. § 41 incorporated in Pub.L. 97-164. 28 U.S.C. § 41 (1994). The CAFC has exclusive jurisdiction over all appeals from the district courts arising under any Acts of Congress relating to patents. 28 U.S.C. § 1295(a)(1)(1994); 28 U.S.C. § 1338 (1994).

## I. DIRECT INFRINGEMENT

The first opportunity for the CAFC to interpret section 271(a) as it applies to the personal liability of corporate officers for direct infringement arose in *Orthokinetics, Inc. v. Safety Travel Chairs, Inc.*<sup>13</sup> However, the *Orthokinetics* Court's application of section 271 was unclear at best. The alleged infringement in *Orthokinetics* arose from a patent, held by Orthokinetics, Inc., which protected a wheelchair designed for children afflicted with scoliosis.<sup>14</sup> Based on the sale of similar wheelchairs by Safety Travel Chairs, Inc. ("STC"), Orthokinetics brought suit in the United States Federal District Court for the Northern District of Ohio against STC and three of its stockholders and officers, alleging willful infringement.<sup>15</sup> The jury found STC's officers liable under both sections 271(a) and (b).<sup>16</sup> However, the district court granted STC's motion for a judgment notwithstanding the verdict,<sup>17</sup> relying only on section 271(a) and holding that a reasonable jury could not find the officers' conduct to be willful in light of the officers' good-faith belief in the patent's invalidity.<sup>18</sup> On appeal, the CAFC reversed, determining that the willfulness of the officers' conduct was irrelevant to the determination of liability under section 271.<sup>19</sup>

Addressing the scope of liability under section 271(a), Chief Judge Markey, writing for the CAFC, stated that the finding of personal liability for corporate officers is conditioned upon piercing the corporate veil.<sup>20</sup> However, Chief Judge Markey inexplicably failed to qualify his or her statement by discussing the traditional requirements of piercing the corporate veil.<sup>21</sup> Rather, he analyzed the issue under a general agency theory.<sup>22</sup> Acknowledging that pat-

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13. 806 F.2d 1565 (Fed. Cir. 1986).

14. *Orthokinetics*, 806 F.2d at 1568. The chair was equipped with "scoliosis pads," which applied pressure on the child's trunk in order to straighten the curvature in his or her spine. *Id.*

15. *Id.* at 1569. STC and its three officers, William J. Pivacek, Clark Chipman, and William J. Cole, answered Orthokinetics' complaint, asserting that the patents were invalid and not infringed. *Id.*

16. *Id.* at 1578.

17. A judgment notwithstanding the verdict, or *non obstante veredicto*, is "a judgment entered by order of court for the plaintiff (or defendant) although there has been a verdict for the defendant (or plaintiff)." BLACK'S LAW DICTIONARY 1055 (6th ed. 1990).

18. *Orthokinetics*, 806 F.2d at 1578.

19. *Id.* at 1579. The appeal was heard by a three-judge panel consisting of Chief Judge Markey, Circuit Judge Newman, and Senior Circuit Judge Swygert. *Id.* at 1567.

20. *Id.* at 1579.

21. *Id.*

22. *Id.*

ent infringement is a tort, the court found that a corporation's officers may be held personally liable for the torts of their corporation "if they personally took part in the commission of the tort or specifically directed other officers, agents, or employees of the corporation to commit the tortious acts."<sup>23</sup> Thus, the court concluded that infringement need not be willful to create personal liability on the part of a corporate officer pursuant to section 271(a).<sup>24</sup>

In the 1990 decision of *Manville Sales Corp. v. Paramount Systems, Inc.*,<sup>25</sup> the CAFC attempted to clarify the confusion created by its ambiguous opinion in *Orthokinetics*.<sup>26</sup> At issue in *Manville Sales* was a patent for an improvement to the "luminaire assembly" used on street lights.<sup>27</sup> The improvement allowed the assembly to easily slide up and down its pole so that it could be serviced.<sup>28</sup> The Manville Sales Corporation ("Manville") obtained a patent for the improvement on February 5, 1973.<sup>29</sup> In 1984, Anthony DiSimone, the corporate secretary of Paramount Systems ("Paramount"), obtained a copy of Manville's luminaire assembly design from the Florida Department of Transportation.<sup>30</sup> DiSimone gave the design to Paramount's president, Robert Butterworth, who had it developed into a product later sold by Paramount.<sup>31</sup> Consequently, Manville filed suit against Paramount, naming DiSimone and Butterworth as party-defendants.<sup>32</sup> The United States District Court for the Eastern District of Pennsylvania found DiSimone and Butterworth personally liable under both sections 271(a) and (b).<sup>33</sup> On appeal the CAFC reversed, sharply breaking from its precedent set forth in *Orthokinetics*.<sup>34</sup>

The CAFC in *Manville Sales* followed the *Orthokinetics* decision

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23. *Orthokinetics*, 806 F.2d at 1579.

24. *Id.*

25. 917 F.2d 544 (Fed. Cir. 1990).

26. *See Manville Sales*, 917 F.2d at 552-53.

27. *Id.* at 547. The improvement was developed by Robert Zeller, a research manager for Manville. *Id.*

28. *Id.* The design used "guide arms" to keep the "luminaire" centered as it moved up and down the pole, thereby eliminating the potential for the "luminaire" to get stuck. *Id.*

29. *Id.* at 549.

30. *Id.*

31. *Manville Sales*, 917 F.2d at 549.

32. *Id.*

33. *Manville Sales Corp. v. Paramount Systems, Inc.*, 14 USPQ2d 1291, 1989 WL 104953 (E.D. Pa. 1989). Paramount's liability pursuant to § 271(b) is discussed *infra*.

34. *Manville Sales*, 917 F.2d at 552-53. The appeal was heard by a three-judge panel consisting of Circuit Judge Archer, Circuit Judge Michel, and Circuit Judge Clevenger. *Id.* at 546.

inpart by requiring that personal liability for corporate officers be based on sufficient "evidence to justify piercing the corporate veil."<sup>35</sup> However, unlike the *Orthokinetics* decision, the *Manville Sales* opinion, authored by Judge Michel, continued its analysis under the traditional principles of corporate law and concluded that the corporate entity cannot be disregarded unless there is a "specific intent to escape liability for a specific tort."<sup>36</sup> This change in direction by the CAFC was not well received by those districts favoring the strict liability approach set forth in *Orthokinetics*.<sup>37</sup> In fact, the district courts of New Jersey and New Hampshire held *Manville Sales* to be nonbinding authority, noting that *Orthokinetics* could only be overturned by a ruling of the CAFC sitting *en banc*.<sup>38</sup>

Of the two district court opinions refusing to follow *Manville Sales*, the more notable is that of the United States District Court for the District of New Jersey in *Symbol Technologies v. Metrologic Instruments, Inc.*<sup>39</sup> Both parties in *Symbol Technologies* manufactured laser barcode scanners.<sup>40</sup> Symbol Technologies, Inc. ("Symbol") had invented a handheld laser scanner and applied for a patent.<sup>41</sup> At the same time, Metrologic Instruments ("Metrologic") was developing its own version of the handheld scanner without

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35. *Id.* at 552.

36. *Id.* In reaching his or her conclusion, Circuit Judge Michel acknowledged that a corporate entity should generally be respected unless there is some specific, unusual circumstance that requires it to be disregarded. *Id.*

37. See *Symbol Technologies, Inc. v. Metrologic Instruments, Inc.*, 771 F. Supp. 1390 (D.C.N.J. 1991); see also, *Curtis Mfg. Co., Inc. v. Plasti-Clip Corp.* 888 F. Supp. 1212 (D.C.N.H. 1994).

38. See *Symbol Technologies*, 771 F. Supp. at 1404; see also *Curtis*, 888 F. Supp. at 1223. *En banc* "refers to a session where the entire membership of the court will participate in the decision rather than the regular quorum." BLACK'S LAW DICTIONARY 526 (6th ed. 1990). The CAFC consists of twelve judges. 28 U.S.C.S. § 44 (Law. Ed. 1988). However, the court is authorized to hear cases by three judge panels. 28 U.S.C.A. § 46(b) (West 1998). The rule cited by the *Symbol Technologies* and *Curtis* courts to support the nonrecognition of *Manville Sales* states that a prior panel decision of the CAFC cannot be overruled by a subsequent panel decision but, rather, requires a ruling from the CAFC sitting *en banc*. *Symbol Technologies*, 771 F. Supp. at 1404; *Curtis*, 888 F. Supp. at 1223. For this reason, the *Symbol Technologies* and *Curtis* courts argue that *Manville Sales* could not overrule *Orthokinetics* but could only expand upon the previous decision. *Id.*

39. 771 F. Supp. 1390 (D.C.N.J. 1991). The *Curtis* opinion is less worthy of discussion because the United States District Court for the District of New Hampshire relied mostly on the language of the earlier New Jersey decision in *Symbol Technologies*. See *Curtis*, 888 F. Supp. at 1222-25.

40. *Symbol Technologies*, 771 F. Supp. at 1393.

41. *Id.* Symbol applied for its patent on February 10, 1986. *Id.*

knowledge of Symbol's pending patent.<sup>42</sup> When the Symbol patent was issued, Metrologic, along with at least two other companies, was already selling a similar product.<sup>43</sup> Symbol ultimately brought suit against Metrologic and C. Harry Knowles, Metrologic's president and sole owner.<sup>44</sup> Metrologic conceded infringement conditioned on the validity of Symbol's patent.<sup>45</sup> However, Knowles denied any personal liability for the infringement by Metrologic, relying on his or her good-faith belief in the invalidity of the Symbol patent.<sup>46</sup> Despite Knowles' alleged lack of intent to infringe, the district court granted summary judgment in favor of Symbol, holding both Metrologic and Knowles liable.<sup>47</sup>

Refusing to follow *Manville Sales* in its interpretation of section 271(a), the *Symbol Technologies* Court unequivocally stated that "there is no need to pierce the corporate veil in order to find personal liability."<sup>48</sup> The court cited *Orthokinetics* as authority that a corporate officer is personally liable for his or her torts even if the tort is patent infringement and is committed by the officer in his or her official capacity.<sup>49</sup> The court, however, disregarded as *dicta* the CAFC's express statement in *Orthokinetics* that piercing the corporate veil is a prerequisite to finding personal liability.<sup>50</sup> With the *Symbol Technologies* Court finding seemingly valid justification for straying so far from the *Manville Sales* decision, it appeared that a new CAFC opinion clarifying the conflict between *Manville Sales* and *Orthokinetics* would be forthcoming. However, the con-

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42. *Id.* Metrologic developed the Model 190 scanner by 1982. *Id.*

43. *Id.* at 1393-94. When its patent was issued on June 7, 1983, Symbol began a campaign of suing potentially infringing manufacturers. *Id.*

44. *Id.* at 1394. A number of events led up to Symbol's suit against Metrologic. Metrologic declared bankruptcy, later to emerge from bankruptcy with the design of a new model scanner. *Id.* at 1393-94. In the meantime, Knowles had testified on behalf of another laser scanner manufacturer in that manufacturer's defense against another infringement suit brought by Symbol. *Id.*

45. *Symbol Technologies*, 771 F. Supp. at 1394.

46. *Id.* at 1405. Upon notification of the Symbol patent, Metrologic consulted with its patent counsel and determined that the patent was unenforceable. *Id.* at 1393.

47. *Id.* at 1406. Summary Judgment "is a procedural device available for prompt and expeditious disposition of controversy without trial when there is no dispute as to either material fact or inferences to be drawn from undisputed facts, or if only question of law is involved." BLACK'S LAW DICTIONARY, 1435 (6th ed. 1990).

48. *Id.* at 1402.

49. *Id.* at 1402-03.

50. *Symbol Technologies*, 771 F. Supp. at 1403. The district court supported its position by noting that the *Orthokinetics* court not only failed to establish a foundation for the need to pierce the corporate veil, but also based its decision on unrelated principles of agency. *Id.*

flict would remain unresolved until five years later when the CAFC addressed the issue again in *Hoover Group, Inc. v. Custom Metalcraft*.<sup>51</sup>

*Hoover Group* was heard by the District Court of Nebraska and arose out of the alleged infringement of a patent protecting a storage tank design.<sup>52</sup> The district court relied on *Orthokinetics* and held, Dwayne Holden, president, chief executive officer, and principal shareholder of Custom Metalcraft, Inc., personally liable for Custom Metalcraft's infringement.<sup>53</sup> The CAFC reversed the district court's holding, thereby supporting the *Manville Sales* Court's interpretation of both sections 271(a) and (b).<sup>54</sup>

The *Hoover Group* Court acknowledged the principle upon which the argument in *Symbol Technologies* was founded—that the general tort liability of corporate officers does not depend on the ability of the plaintiff to pierce the corporate veil.<sup>55</sup> However, the CAFC expanded upon the general rule by distinguishing between liability for “commercial torts committed in the course of the officer's employment, and negligent and other culpable wrongful acts.”<sup>56</sup> Writing for the court, Judge Newman noted that when a corporate officer commits a tort in which he or she has no personal interest, the officer has historically been protected by the corporate structure.<sup>57</sup> Because a corporate officer has no personal interest in patent infringement the court determined that patent infringement is in the nature of a commercial tort.<sup>58</sup> The court,

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51. 84 F.3d 1408 (Fed. Cir. 1996). The appeal by *Hoover Group* was heard by a three judge panel of the CAFC, consisting of Chief Judge Archer, Circuit Judge Newman, and Circuit Judge Clevenger. *Id.* Circuit Judge Pauline Newman wrote the opinion for the court. *Id.*

52. *Hoover Group*, 84 F.3d at 1409-10. Both *Hoover Group* and Custom Metalcraft made tanks for storage and transportation. *Id.*

53. *Id.* at 1411.

54. *Id.* at 1412. The *Hoover Group* Court's interpretations of § 271(b) are discussed *infra*.

55. *Id.* at 1411. The CAFC started down another misleading path in the beginning of its analysis when it stated that the *Orthokinetics* Court found liability by applying the principles of piercing the corporate veil. *Id.*

56. *Id.* at 1411. The court explained that the nature of the wrong is taken into consideration and gave conversion, breach of fiduciary duty, fraud, and malicious prosecution as examples of torts for which corporate officers have been subject to personal liability and interference with contractual relations as an example of a commercial tort for which corporate officers are protected by the corporate veil. *Id.*

57. *Hoover Group*, 84 F.3d at 1411.

58. *Id.* at 1411-12. The criteria used by the court to distinguish a commercial tort from other torts were the nature of the wrong, the culpability of the act, and the actions of the officer (whether the person acted in his/her personal interest or that of the corporation). *Id.*



therefore, concluded that the commission of the tort of infringement by a corporate officer, acting within the scope of his or her duties, does not, in and of itself, subject the officer to personal liability, but only justifies personal liability if there is sufficient cause to pierce the corporate veil.<sup>59</sup>

In *Hoover Group* the CAFC clarified the uncertainties which for so long had surrounded the application of section 271(a) to corporate officers. If *Hoover Group* is accepted by the district courts, an officer of a valid corporation may once again feel secure in performing his or her official duties without the threat of incurring liability for direct infringement.<sup>60</sup> However, even if liability for direct infringement is now unlikely, the danger of personal liability for patent infringement remains. A corporate officer still faces the risk of liability for inducing infringement under section 271(b).

## II. INDUCING INFRINGEMENT

A year before the CAFC first addressed direct infringement in *Orthokinetics*, the court heard *Power Lift, Inc. v. Lang Tools*,<sup>61</sup> in which it was asked to determine the liability of a corporate officer for inducing infringement under section 271(b).<sup>62</sup> The dispute in *Power Lift* arose when Lang Tools, under the direction of its president and founding director, Wendell Lang, reverse engineered an invention manufactured by Power Lift, Inc.<sup>63</sup> The invention was a system designed to lift equipment from the mouth of an oil or gas well so that the well could be serviced.<sup>64</sup> At the time Lang Tools copied the lift system design it was unaware that Power Lift had already filed a patent application.<sup>65</sup> After the patent had been is-

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59. *Id.*

60. *Hoover Group* was not decided by the court *en banc*. *Hoover Group*, 84 F.3d at 1409. Therefore, even though *Hoover Group* gives a far more definitive interpretation of § 271(a) than that given in *Manville Sales*, it is possible that the a district court could consider it nonbinding authority.

61. 774 F.2d 478 (Fed. Cir. 1985).

62. *Power Lift*, 774 F.2d at 478. The appeal by *Lang Tools* was heard by a three-judge panel of the CAFC consisting of Circuit Judge Rich, Circuit Judge Bennett, and Senior Circuit Judge Miller. *Id.* at 479.

63. *Id.* Wendell Lang's son, Darrell, was seen taking measurements of the Power Lift invention. *Id.* at 481. The machine ultimately produced by Lang Tools was based on the Power Lift invention but was not an exact copy. *Id.*

64. *Id.* at 480. Equipment that rests on the mouth of an oil or gas well drilling rig sometimes needs to be lifted so that the well bore casing can be serviced. *Id.*

65. *Id.* at 481. Power Lift filed a patent application on July 14, 1980, and Lang Tools finished its copy of the invention before November 1980. *Id.* However, the only claim in

sued, Power Lift contacted Wendell Lang and offered Lang Tools a license on the newly patented lift system, alleging that Lang Tools was infringing.<sup>66</sup> Wendell Lang declined the license and refused to stop production.<sup>67</sup> Power Lift then brought an action in the United States District Court for the Western District of Oklahoma naming both Lang Tools and Wendell Lang as defendants.<sup>68</sup> The action instituted against Wendell Lang was based solely on Lang's alleged violation of section 271(b); Power Lift claimed that Wendell Lang induced Lang Tools to infringe the Power Lift patent.<sup>69</sup> Wendell Lang defended by arguing that "a corporation, which can act only through its officers and agents, cannot be said to have been 'induced' by its officers to do certain acts."<sup>70</sup> When a verdict was returned in favor of Power Lift, Wendell Lang appealed the decision to the CAFC.<sup>71</sup>

The CAFC followed the Fifth Circuit, Ninth Circuit, and Tenth Circuit, broadly interpreting section 271(b) to "include liability of corporate officials who actively aid and abet their corporation's infringement."<sup>72</sup> This broad reading of section 271(b) established a precedent that diverged from the traditional principles of corporate law and held corporate officers personally accountable for their official conduct. The *Power Lift* court failed, however, to answer one important question which has yet to be completely resolved—the necessary degree of culpability.

Having established in *Power Lift* that section 271(b) applies to corporate officers, the CAFC began its quest to define the elements of such a charge in *Water Technologies Corp. v. Gartner*.<sup>73</sup> The infringing invention involved in *Water Technologies* was a drinking straw coated with a bactericidal resin used to purify water.<sup>74</sup> Dur-

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the Power Lift patent potentially effecting the Lang Tools machine was added in an amendment to the application in April, 1981. *Id.* at 481-82.

66. *Id.* at 482. Power Lift offered the license to Lang immediately upon issuance of the patent on December 15, 1981, and Lang responded by saying that "before he would pay [Power Lift] a nickel, he'd see [Power Lift] in the courthouse." *Id.*

67. *Power Lift*, 774 F.2d at 482.

68. *Id.* at 479, 482.

69. *Id.* at 480. Power Lift made no allegation that Wendell Lang directly infringed the patent under § 271(a). *Id.*

70. *Id.*

71. *Id.* at 479.

72. *Power Lift*, 774 F.2d at 481.

73. 850 F.2d 660 (Fed. Cir. 1988).

74. *Water Technologies*, 850 F.2d at 663-64. Before the development of bactericidal resins for use in purifying water, the technique most often used to disinfect water was to insert halogen tablets directly into the water. *Id.* at 663. This technique left a residue of

ing his or her invention of the purifying straw, William Gartner, the president of a chemical laboratory, had attempted to sidestep infringement by making slight modifications to the resin used in a preexisting process patent for which Water Technologies Corporation ("WTC") held an exclusive license.<sup>75</sup> After learning of the similarities, WTC brought suit against both the manufacturer of the straw for direct infringement<sup>76</sup> and William Gartner for inducing infringement.<sup>77</sup> The United States District Court for the Northern District of Illinois held the manufacturer liable for direct infringement and William Gartner liable for inducing infringement.<sup>78</sup> On appeal, the CAFC upheld the ruling of the district court.<sup>79</sup>

With respect to the issue of inducing infringement, the *Water Technologies* Court focused on the knowledge of the corporate officer.<sup>80</sup> Judge Nies, writing for the CAFC, narrowly interpreted section 271(b) by concluding that "a person infringes by actively and *knowingly* aiding and abetting another's direct infringement."<sup>81</sup> After finding intent to be an essential element of inducing infringement, the court then turned its attention to the proof of such intent.<sup>82</sup> Because Gartner had taken no bona fide steps to determine whether his or her invention was or was not infringing, the

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disinfectant in the water, which resulted in unpleasant-tasting drinking water and could be harmful to the eyes if used in swimming pools. *Id.*

75. *Id.* at 664. WTC held an exclusive license to manufacture purifying products from a disinfecting resin patented by Dr. Gary L. Hatch and assigned to Aqua-Chem, Inc. *Id.* at 663. Under its exclusive license WTC manufactured a water purifying cup. *Id.* While making his or her purifying straw, Gartner added a small amount of potassium bromide to Dr. Hatch's resin formula because he believed that the addition would avoid infringement. *Id.* at 664.

76. *Id.* at 664. Gartner granted Calco, Ltd. a license to manufacture and sell the purifying drinking straw. *Id.* at 663

77. *Id.* WTC, as licensee, petitioned Aqua-Chem to bring an action challenging the Gartner patent. *Id.* When Aqua-Chem declined to file an infringement action, WTC brought the foregoing action as an exclusive licensee. *Id.*

78. *Id.* See also, *Water Technologies Corporation v. Gartner*, 658 F. Supp. 961 (N.D. Ill. 1986). The district court also found both Calco and Gartner liable for unfair competition. *Water Technologies*, 850 F.2d at 664.

79. *Water Technologies*, 850 F.2d at 662. The CAFC affirmed the district court's ruling as it pertained to the direct infringement by Calco and induced infringement by Gartner but reversed on the issue of unfair competition. *Id.* The case before the CAFC was decided by a three-judge panel consisting of Circuit Judge Nies, Circuit Judge Archer, and Senior Circuit Judge Skelton. *Id.*

80. *Id.* at 668-69.

81. *Id.* at 668. Circuit Judge Nies noted that § 271(b) does not use the word "knowing" but concluded that the "knowing" requirement was required by the existing case law and legislative history. *Id.*

82. *Id.* The court concluded that the intent required under § 271(b) could be proven by circumstantial evidence. *Id.*

CAFC held that the lower court did not err in concluding that his or her infringement was intentional.<sup>83</sup>

Two years after *Water Technologies*, the CAFC revisited the issue of a corporate officer's personal liability for inducing infringement in *Manville Sales Corp. v. Paramount Systems, Inc.*,<sup>84</sup> and once again limited the scope of section 271(b).<sup>85</sup> Citing *Water Technologies*, the *Manville Sales* Court acknowledged that liability under section 271(b) requires the alleged infringer "to have knowingly induced infringement."<sup>86</sup> The court then went a step farther, by holding that section 271(b) requires more than mere knowledge on the part of the corporate officer; it also requires the officer to have "possessed [the] specific intent to encourage another's infringement."<sup>87</sup> *Manville Sales*, thus, removed any doubt that might have remained after *Water Technologies* as to whether inducing infringement constitutes an intentional tort according to the CACF. However, those lower courts favoring a strict liability theory for patent infringement were no more willing to accept the CAFC's conclusions as to section 271(b) than they had been as to section 271(a).<sup>88</sup>

In *Symbol Technologies*, the defendant corporate officer argued to the district court that he could not have had the intent to induce infringement as required by *Manville Sales* because he had acted upon the advice of his or her corporation's counsel.<sup>89</sup> However, refusing to acknowledge the *Manville Sales* holding for the same reasons it had concerning direct infringement, the district court explicitly rejected the argument that intent is an element of the tort of inducing infringement.<sup>90</sup> Instead, the court relied on a liberalized form of the knowledge requirement set forth in *Water Technolo-*

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83. *Id.* at 668-69. The court suggested that if Gartner had sought the advice of counsel, he might have been protected. *Id.* at 669.

84. 917 F.2d 544 (Fed. Cir. 1990). The portion of the *Manville Sales* opinion relating to direct infringement was discussed *supra*.

85. See *Manville Sales*, 917 F.2d at 553-54.

86. *Id.* at 553.

87. *Id.* The plaintiff has the burden of proving (1) that the actions of the defendant induced infringement and (2) that the defendant "knew or should have known his or her actions would induce actual infringements." *Id.*

88. See *Symbol Technologies*, 771 F. Supp. at 1402-06; see also *Curtis*, 888 F. Supp. at 1222-25.

89. See *Symbol Technologies*, 771 F. Supp. at 1405. The validity of the defense of good-faith reliance on the advice of counsel is discussed *infra*.

90. *Id.* Judge Brotman stated that the corporate officer's reliance on the advice of counsel is only relevant in determining if the infringement was willful for the purpose of finding increased damages under 35 U.S.C. § 284. *Id.*

gies, and concluded that to find a corporate officer liable for inducing infringement, it need only be shown that the officer had some knowledge of an infringement controversy.<sup>91</sup>

The district court's decision in *Symbol Technologies* clearly indicated the CAFC needed to set consistent standards regarding corporate officer liability under section 271(b). The CAFC addressed the issue in *Hoover Group* but with much less clarity and depth than it had regarding direct infringement.<sup>92</sup> The *Hoover Group* Court, quoting its previous decisions, simply established that a plaintiff alleging section 271(b) liability against a corporate officer must prove something more than mere "knowledge" and something less than the existence of a sham corporation.<sup>93</sup> Although the court both alluded to an element of intent and noted the district court's failure to find intent, it failed to expressly state that intent is a requirement under section 271(b).<sup>94</sup> Because *Hoover Group* was not decided by the court sitting *en banc*, the suggestion that intent is a required element of section 271(b) is just as likely to be ignored by the lower courts as was the *Manville Sales* opinion. Therefore, the CAFC may again be presented with the issues surrounding the application of section 271(b) to corporate officers. One such issue that appears likely to arise is a corporate officer's ability to raise the defense of good-faith reliance on the advice of counsel when charged with inducing infringement.

### III. GOOD-FAITH RELIANCE ON THE ADVICE OF COUNSEL

Whether a corporate officer may use his or her good-faith reliance on the advice of counsel as a defense to a charge of inducing infringement turns on the intent requirement of section 271(b). Reliance on the advice of counsel may be used to disprove intent and may, therefore, be a defense to intentional misconduct.<sup>95</sup> How-

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91. See *Id.* at 1404. The court stated that "knowledge," as the term was used by the *Water Technologies* Court, is not synonymous with an intent to infringe but, rather, means that the corporate officer is aware that there is an issue as to infringement. *Id.* The court then quoted the *Orthokinetics* Court's holding that "[c]orporate officers are presumably aware of what they are doing, and in that sense can be said to have acted willfully." *Id.* at 1405.

92. See *Hoover Group*, 84 F.3d at 1411-12.

93. See *Id.* at 1412. That portion of the *Hoover Group* opinion regarding § 271(b) was simply a string of quotations from the court's previous decisions. See *Id.*

94. See *Id.* An intent requirement is suggested by the court's quotation of the "knowledge" requirements set forth in *Water Technologies* and *Manville Sales*. *Id.*

95. See generally *United States v. Defries*, 129 F.3d 1293, 1308 (D.C. Cir. 1997); Ped-

ever, the general rule is that the advice of counsel is not an absolute defense to negligent or unlawful acts.<sup>96</sup> Therefore, if inducing infringement is an intentional tort, the defense is clearly valid. However, if section 271(b) requires something less than an intent to induce infringement, the effect of the advice of counsel upon one's liability is less apparent. Therefore, the viability of the good-faith reliance defense in the context of inducing infringement depends upon whether intent is a required element of a section 271(b) violation.

The opinions in *Manville Sales* and *Symbol Technologies* are diametrically opposed on the issue of whether section 271(b) requires that a defendant be shown to have intentionally induced infringement.<sup>97</sup> The CAFC in *Manville Sales* stated that "it must be established that the defendant possessed specific intent to encourage another's infringement[.]"<sup>98</sup> The *Symbol Technologies* Court held that "specific intent to infringe is not necessary for a finding of inducing infringement."<sup>99</sup> It was expected that this conflict would be put to rest by the CAFC in *Hoover Group*, and, at first glance, this would seem to be the case.<sup>100</sup> However, a close reading of *Hoover Group* reveals an open invitation for further dispute.

Reduced to its essence, *Hoover Group* asserts nothing more than a requirement that a corporate officer's liability for inducing infringement be "supported by personal culpability," where "personal culpability" is defined as "actively and knowingly assist[ing] with the corporation's infringement."<sup>101</sup> With this definition, the court seems to have linked the required culpability to the knowledge of the officer. However, the court did not define what degree of knowledge it envisions.<sup>102</sup> This leads back to the argument made in *Symbol Technologies*—that the term "knowledge" does not require that a corporate officer knows that he or she is infringing

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rina v. Chun, 906 F. Supp. 1377, 1422-23 (D. Haw. 1995); United States v. Faust, 850 F.2d 575, 583 (9th Cir. 1988); Rea v. Wichita Mortgage Corp., 747 F.2d 567, 576 (10th Cir. 1984).

96. In re Valdelinde, 366 S.E.2d 631, 637 (W. Va. 1988).

97. Compare, *Manville Sales*, 917 F.2d at 553, with *Symbol Technologies*, 771 F. Supp. at 1405.

98. *Manville Sales*, 917 F.2d at 553.

99. *Symbol Technologies*, 771 F. Supp at 1405.

100. *Hoover Group*, 84 F.3d at 1412. It is easy to construe (or maybe misconstrue) the *Hoover Group* Court's discussion of the officer's culpability and knowledge to indicate a required showing of intent. See *Id.*

101. *Id.*

102. *Id.*

but, rather, only requires knowledge of an infringement controversy.<sup>103</sup>

Premising its argument on its broad definition of "knowledge," the *Symbol Technologies* Court posited that no intent to infringe is required under section 271(b).<sup>104</sup> Without the requirement of intent, the court was able to conclude that the defense of good-faith reliance on the advice of counsel is invalid when applied to a charge of inducing infringement.<sup>105</sup> This argument is no less sound now than it was when made by the *Symbol Technologies* Court. Therefore, the CAFC may have failed in *Hoover Group* to protect corporate officers in those districts favoring a strict liability theory.

### CONCLUSION

Corporate officers need to be able to make decisions based on the opinions of corporate counsel, without having to be concerned that a rogue district court will find them strictly liable for patent infringement. Patents are not meant to create monopolies; they are instead intended as an incentive for research and development. With corporations carrying the bulk of the modern world's research and development, dismantling the corporate structure through the language of the Patent Act defeats the very principle upon which that act was founded. If a corporate officer is truly culpable in an infringement, a liberal interpretation of section 271 is not necessary to provide an adequate remedy. If strict liability is read into the language of section 271, the only effect is to limit a corporation's ability to enter areas of development where the potential for an infringement controversy is uncertain. The purpose of allowing limited liability for the officers of a corporation is to enable the officers to take such calculated risks. However, if a corporate officer is unable to make decisions based on the advice of corporate counsel without chancing personal liability, the foundation of the corporate structure is destroyed. It is inconceivable that the drafters of the Patent Act intended such a result.

*Joseph M. Sauer*

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103. *Symbol Technologies*, 771 F. Supp at 1404.

104. *Id.*

105. *Id.* at 1405.